GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:16
ANSWERED ON:10.08.2007
PRIME LENDING RATE
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Will the Minister of FINANCE be pleased to state:

(a) whether RBI has directed the banks to change the benchmark prime lending rates;

(b) if so , the details thereof;

(c) the reaction of banks in this regard; and

(d) the steps taken by the Government to check the overpricing of lending to agriculture, small scale industries and housing sector in the country?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI PAWAN KUMAR BANSAL)

(a) to (c): The Reserve Bank of India (RBI) has de-regulated interest rates on advances above Rs 2 lakh, including the housing loans with effect from October 18, 1994 and interest rates are determined by the banks themselves with the approval of their Boards. For credit limit up to Rs.2 lakh, the Benchmark Prime Lending Rate (BPLR) has been prescribed as the ceiling lending rate Banks are now allowed to freely price their products below or above their BPLR and offer floating rate products by using market benchmarks in a transparent manner. Interest rates on loans given by Regional Rural Banks (RRBs) and Co-operative Banks have also been completely deregulated by the RBI.

(d): In order to provice credit to the farmers at reasonable cost, the Government has decided that the farmers receive short -lerm credit: at an interest rate of 7% per annum with an interest subvention of 2% for loan up to Rs.3 lakh on the principal amount since in Kbarif season of 2006-07.

With effect from July 12, 2007 a package of measures have been announced to provide relief to exporters in nine speciiied categories and to all exporters from Small and Medium Enterprises sectors from 01.04.2007 to 31.12.2007 in terms of interest rate subvention of 2 % points on Rupee Export Credit. Accordingly, banks would charge interest rate not exceeding BPLR minus 4.5 % on pre-shipment credit up to 180 days and post shipment credit up to 90 days on outstanding amount for the period April 1, 2007 to December 2007.